

EXECUTIVE SECRETARIAT
ROUTING SLIP

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		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI		X		
6	DDA		X (21 May only)		
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC		X		
11	IG				
12	Compt		X (21 May only)		
13	D/OLL				
14	D/PAO				
15	VC/NIC		X		
16	NIO/ECON		X		
17	D/OGI/DI		X		
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SUSPENSE _____ Date _____

Remarks FYI, Minutes of Economic Policy Council meetings for 16 and 21 May 85.

Executive Secretary

11 Jun 85

Date

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EPC Mtg

Executive Registry
86- 2210/4

MINUTES
ECONOMIC POLICY COUNCIL

May 16, 1985
2:00 p.m.
Cabinet Room

Minutes - 16 May 1985
Agri Export Enhancement
Bonn Summit

Attendees: The President, the Vice President, James A. Baker III, George P. Shultz, Caspar W. Weinberger, John R. Block, William E. Brock, Donald T. Regan, David A. Stockman, William J. Casey, Beryl W. Sprinkel, Clarence J. Brown, Michael B. Smith, Robert C. McFarlane, John A. Svahn, Patrick Buchanan, Max Friedersdorf, Edward Rollins, Larry Speakes, M.B. Oglesby, Richard G. Darman, Alfred H. Kingon, Roger B. Porter, Allen, Wallis, David Chew, Thomas Dawson, and Frederick Khedouri.

1. Agricultural Export Enhancement Program

Secretary Shultz raised the issue of the nature of the Administration's commitment to the Agricultural Export Enhancement Program described as part of the package of deficit reduction measures approved by the Senate. He expressed his concern over the lack of adequate consultation within the Administration in the events leading up to its adoption as part of the budget package.

The discussion focused on the negotiations with the Senate Republicans regarding the budget package in general and the agricultural export enhancement provisions in particular; the effect of the program on our overall trade policy; the need for an agreed upon set of guidelines to establish parameters for making specific sales under the program; and the mounting pressure from the Senate Republicans to have the Administration announce the details of the program quickly.

Decision

The President approved establishing a Working Group of the Economic Policy Council to develop guidelines for the Agricultural Export Enhancement Program including the criteria that would be used in evaluating specific proposals for sales under the program.

The representative from the Department of the Treasury will chair the Working Group which will include representatives from the Departments of State, the Treasury, Agriculture, and Commerce, the Office of Management and Budget, the Office of the U.S. Trade Representative, the



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Office of Policy Development, and the Council of Economic Advisers. The Working Group should prepare materials and criteria for review by the Economic Policy Council the week of May 20.

2. Post Bonn Summit Trade Strategy

Ambassador Smith reviewed recent developments affecting our overall trade strategy emphasizing the discussions on trade policy at the Bonn Economic Summit Conference. He noted that a good number of countries genuinely support a new multilateral trade round, although several countries including France, Brazil, and India are resisting it.

The principal U.S. objectives are to gain greater access to foreign markets for U.S. goods and services, to resist protectionist pressures around the world, and to dismantle tariff and non-tariff barriers that impede the free flow of trade. He also emphasized the need to build and maintain momentum toward achieving these objectives by commencing negotiations as soon as possible.

Accordingly, he proposed a multi-pronged strategy that would include three central elements:

- (1) Undertaking strong and consistent efforts to complete preparing and launching a new round of multilateral trade negotiations;
- (2) Proceeding with negotiations among those countries who are prepared to move forward in "plurilateral negotiations" leaving the door open for other countries to participate as observers and to join any agreements reached. Such negotiations would proceed on a conditional MFN basis with the benefits of an agreement accruing only to the participants.
- (3) Taking advantage of bilateral negotiating opportunities such as the current MOSS discussions with Japan and a possible bilateral free trade negotiation with Canada.

He suggested that this multi-pronged strategy was based in part on the conviction that certain parties were anxious to delay and prolong the commencement of genuine multilateral negotiations as long as possible. By indicating a willingness to commence plurilateral negotiations with those countries willing to proceed now, this strategy

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will hopefully generate pressure on other countries to join the process. At the same time it should help in deflecting protectionist pressures at home and abroad.

In outlining the multi-pronged strategy, Ambassador Smith emphasized that our first and most urgent priority would be launching successfully a new multilateral trade round.

Secretary Shultz agreed with the multi-pronged strategy noting that we must make a real effort at a new GATT round, but that we must also be prepared to move forward on other fronts as appropriate. He added that he liked the idea of a free trade area with Canada. Secretary Brock observed that pursuing a Canadian Free Trade Zone would send an important signal regarding our interest in and desire for further liberalization in the world trading system.

The Council discussed several aspects of a free trade zone with Canada including: the International Trade Commission studies of eight sectors and how they would be affected by a U.S.-Canadian free trade zone; the impact on the petroleum, agriculture, and timber industries; differences in U.S. and Canadian timber policies; the uniform judgment of economic analyses of such a free trade zone which conclude that it would be beneficial for both the U.S. and Canada; the possibility of moving toward a free trade zone incrementally; the share of goods currently traded by the two countries that are not subject to any tariff barriers; and recent developments in Canadian foreign investment policy.

The Council also discussed the steps we are currently taking toward establishing the preparatory round for the multilateral trade negotiations.

Decision

The President approved a multi-pronged trade policy strategy that would:

- (1) Place highest priority on completing preparations for and launching a new round of multilateral trade negotiations;
- (2) Proceed with negotiations among those countries who are prepared to move forward in "plurilateral negotiations," if appropriate, as a means of reducing barriers to trade and of generating pressure on

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other countries to join a full multilateral trade round; and

- (3) Taking advantage of bilateral negotiating opportunities to open foreign markets to U.S. goods and services including the current MOSS discussions with Japan and a possible bilateral free trade zone with Canada.

The Council approved establishing an interagency Working Group, chaired by the representative from the Office of the U.S. Trade Representative, to refine the particular elements of this new trade strategy and to prepare an update on the preparatory talks for the new multilateral round for consideration by the EPC.

The Council requested the Office of the U.S. Trade Representative to prepare a paper summarizing the existing literature on the economic effects of a U.S.-Canadian Free Trade Zone.

3. Textile Trade Legislation

Ambassador Smith reviewed the situation with respect to the Textile Apparel Trade and Enforcement Act of 1985 (S. 680 and H.R. 1562) that has rapidly gained support in the Congress. This legislation would significantly roll-back textile and apparel imports.

He reviewed the Administration's agreement to make every effort to satisfactorily conclude a Multifiber Arrangement that would allow us to relate total import growth to the growth in the domestic textile and apparel market, the growth in imports during the 1980-1984 period, the measures the Administration has taken to curb textile and apparel imports, and the effect these actions have had on moderating import growth during the fourth quarter of 1984 and the first quarter of 1985.

He outlined the specific measures of the proposed textile legislation, its economic costs in terms of increased prices for consumers and costs per job saved, the fact that passage of the legislation would force the U.S. to abrogate the MFA and the 34 bilateral agreements we have negotiated, and that implementation of the Act would almost certainly invite retaliation against U.S. exports.

He emphasized that while the Administration is on record as formally opposing the legislation, this has not been communicated at a senior level.

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The Council's discussion focused on the textile industry's attempts to pressure the Administration to negotiate a tougher MFA through the threat of textile quota legislation; the effect of the legislation on our GATT commitments, on the prospects for a new MFA, and on many poor countries that export textiles and apparel to the U.S.; the health of the domestic textile and apparel industry relative to four years ago; the extent of modernization in the textile industry relative to other U.S. industries; the effect of further import restraint on inflation; and the need to develop our position on a new MFA.

Decisions

The President approved strongly opposing the proposed Textile Apparel Trade and Enforcement Act of 1985 and communicating the Administration's opposition from the White House.

The Council requested the Office of the U.S. Trade Representative to prepare a letter outlining the reasons for the Administration's opposition to the legislation along with an accompanying fact sheet.

The Council approved establishing an interagency Working Group, chaired by the representative from the Office of the U.S. Trade Representative, to develop our strategy and position on a new Multifiber Arrangement.